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DEPARTMENT OF AUDITOR-CONTROLLER

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March 8, 2001

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: for J. Tyler McCauley
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF RENAISSANCE UNLIMITED - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on Renaissance Unlimited (Renaissance) fiscal operations for the two-year period January 1, 1999 through December 31, 2000. Renaissance is currently licensed to operate two group homes with a combined resident capacity of 12 children. During the period of our review, Renaissance was licensed to operate three group homes with a combined capacity of 18 children and received approximately $1,150,000 (or $575,000 annually) in group home funds from the Department of Children and Family Services (DCFS). Renaissance is located in the Fourth Supervisorial District.

We reviewed this Agency at DCFS' request in response to a January 29, 2001 court order issued by the Superior Court of California, Los Angeles. The court ordered DCFS to investigate whether the Agency's administrator was "making personal use of funds" designated for the group home residents. Because of the unspecific nature of the allegations, we conducted a fiscal review of the Agency's operations to ensure that group home funds were being spent appropriately.

Summary of Findings

Our review disclosed a total of $51,649 in questioned costs. Included in this amount are expenditures totaling $12,625 that were not adequately documented as program related. We also questioned $33,333 in salaries paid to the CEO and the Administrator and $5,691 in non-group home related expenditures.

In addition, we found that the Agency has an outstanding loan payable to their administrators that is not adequately supported. We have recommended that the Agency refrain from repaying this loan until they can fully support the amount owed. We also noted areas where Renaissance needs to correct contract compliance deficiencies and strengthen internal controls over their accounting records, disbursements, payroll and bank reconciliations. Details of our findings are included in the attached report.

DCFS should ensure that the Agency's management takes appropriate corrective actions to address the recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Review of Report

We discussed our report with Renaissance management on March 6, 2001. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report.

We thank Renaissance management and staff for their cooperation during our review.

JTM:PTM:MR:RD

Attachment

c: David E. Janssen, Chief Administrative Officer
Public Information Office
Audit Committee Members
Commission for Children and Families
Department of Children and Family Services
Anita Bock, Director
Barry Chass, Assistant Division Chief
Ed Sosa, Chief, Out of Home Care Programs
Genevra Gilden, Chief, Quality Assurance Division
Maria Borroto, Children Social Worker, Region II
Renaissance Unlimited Group Home
Richard Nzenwa, Chief Executive Officer
Maria Nzenwa, Administrator
Board of Directors
California Department of Social Services
Sharon Ferrante, Chief, Foster Care Audits Bureau
Evelyn Hemenover, Chief, Foster Care Rates Bureau

Renaissance Unlimited
Fiscal Audit of Group Home Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracts with Renaissance Unlimited (Renaissance) to provide the basic needs and services for foster care children placed in the Agency's care. Renaissance is currently licensed to operate two group homes with a combined capacity of 12 children and is located in the Fourth Supervisorial District.

Under the provisions of the Contract, the County pays Renaissance a monthly rate for each child based on rate classification levels determined by the California Department of Social Services. Renaissance receives a monthly rate of $3,036 per child and, during our two-year review period, January 1, 1999 through December 31, 2000, received approximately $1,150,000 (or $575,000 annually) in group home funds from DCFS.

Applicable Regulations and Guidelines

Renaissance is required to operate its group homes in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- Group Home Foster Care Contract, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).

- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations.

- California Department of Social Services Manual of Policies and Procedures (CDSS- MPP).

- California Code of Regulations, Title 22 (Title 22).

Questioned Costs

We determined that Renaissance used group home funds for questioned costs totaling $51,649. Details of the questioned costs are discussed below.

Unsupported Costs

The Agency could not provide support for 14 (54%) of 26 expenditures tested, for a total of $12,625 in unsupported costs. Unless otherwise indicated below, no invoices were provided for the expenditures. Specifically, we found the following:

- $4,745 in payments to the Chief Executive Officer (CEO).

- $2,013 in credit card purchases made at a Best Buy electronics store.

- $2,806 for various gasoline purchases and reimbursements that were not supported with mileage or travel logs. The A-C Handbook, Section 3.014, requires that such expenses be supported with mileage logs showing dates, destinations and headquarters, purposes of trips and mileage driven.

- $1,440 for a workers' compensation insurance payment.

- $1,267 in other unsupported expenditures.

- $354 for prepaid calling cards for which there is no record of phone calls made. The Agency should refrain from purchasing prepaid calling cards. Since there is no bill with a record of calls made, we cannot determine whether the cards are used for group home purposes.

Unallowable Expenditures

Our review disclosed a total of $5,691 in unallowable expenditures, as follows:

- $2,694 in reimbursements to the CEO for purchases that were made with the Agency's credit card. Since the Agency had already paid for the items, the CEO was not eligible for these reimbursements. In one case we noted that the CEO was reimbursed twice for a $470 purchase.

- $76 in food and alcohol purchases. Agency management confirmed that these were not group home related. Specifically, we noted the following:

    - $52 for baby food. The Agency's residents are 14 to 17 years old and have no children.

    - $24 for alcohol. Alcohol is unallowable per the Circular.

- $99 in vehicle expenses incurred by an employee for her personal vehicle. Agency management confirmed that these were not group home related.

- $44 for internet connection services. Management indicated that they only had one computer. However, beginning November 2000, the Agency began paying for two internet connections.

- $237 in finance charges for the Agency's credit cards. Per the Circular's Attachment B, Section 23, finance charges are unallowable.

- $2,541 in rent and furniture used for the Agency's Transitional Housing Pilot Program (THPP). These expenses were inappropriately charged to the group home program (see also allocation issues in "Inadequate Accounting Procedures" section below).

Excess Compensation

Both the CEO and the Administrator work 20 hours per week and earn $47,000 annually. Per the A/C Handbook, Section 8.015, employees who work less than 40 hours per week shall be considered part-time employees, and they shall be paid on a pro-rated basis, unless otherwise approved in writing by the County.

Section 11-402 of the CDSS establishes salary limits for group home administrators based on the annual revenue of the group home. For Renaissance, the maximum salary for the highest ranked executive is $65,163, or $32,582 pro-rated ($65,163/2). Only one individual per Agency may receive this salary. The next highest salary would be for an assistant executive director, or equivalent, and is set at $56,169, or $28,085 pro-rated ($56,169/2).

Agency management claims that a portion of the salary they receive is for services rendered on behalf of the THPP program. However, since the Agency did not allocate their salaries between the programs, we could not determine the amount related to group home services (see also allocation issues in the "Inadequate Accounting Procedures" section below). Therefore, we question $33,333, the portion of the administrators' salaries that exceeded the pro-rated salary limits.

Recommendations

1. **DCFS management resolve the $51,649 in questioned costs and, if appropriate, collect any disallowed amounts.**

In order to demonstrate the ability to appropriately account for group home funds and administer the program in compliance with the terms of their agreement with the County, the Agency must immediately implement the following recommendations:

Renaissance management:

2. **Maintain adequate supporting documentation for all group home expenditures.**

3. **Ensure that group home funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the group home.**

Group Home Loans

The Agency's December 31, 2000 balance sheet shows an outstanding loan payable of $42,420. Per Renaissance management, this loan represents various group home loans received from the CEO and Administrator since June 21, 1991. However, the Agency did not enter into a formal agreement with the CEO and Administrator to account for the loans and terms of repayment.

We also noted that the Agency did not account for the loan properly. Supporting schedules provided were cumbersome and the totals did not agree to the outstanding loan balance reported in the balance sheet. Also, Renaissance did not maintain a comprehensive schedule to document the extensive loan activity, which made it difficult to verify the loan amounts. In addition, since the Agency could not locate general ledgers and bank statements for several reporting periods, we could not verify some of the loan activity (see also "Inadequate Accounting Procedures" Section below).

Section 10 of the Contract requires group home records to be traceable to applicable source documents. Therefore, Renaissance should refrain from using group home funds to repay the outstanding loans to the CEO and Administrator unless the Agency can fully support these loans as a group home liability. In addition, Renaissance needs to document the terms and conditions of all outstanding and future loans made to the Agency.

Recommendations

Renaissance management:

4. **Refrain from using group home funds to repay any loans due to the CEO and Administrator unless Renaissance can fully support these liabilities.**

5. **Document the terms and conditions of all outstanding and future loans made to the Agency.**

Investing Foster Care Funds

Renaissance maintains a nominal investment (approximately $17,000) in a money market fund. These funds are not bank or FDIC insured and involve investment risk, including possible loss of principal. Renaissance should discontinue holding excess foster care funds in these types of investments.

Recommendation

6. **Renaissance management immediately remove all foster care proceeds from any accounts that involve investment risk.**

Contract Compliance and Internal Controls

Our audit disclosed several contract compliance issues and internal control weaknesses in addition to those already mentioned. These deficiencies contributed to the questioned expenditures discussed above. DCFS must ensure that Renaissance management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Inadequate Accounting Procedures

We found the following deficiencies in Renaissance's accounting procedures that substantially reduced the reliance that could be placed on the accuracy and completeness of the accounting records:

- The Agency was missing financial records for several periods. For example, the Agency could not locate the general ledgers for calendar years 1992 through 1996 and the bank statements for 1991 through 1993. Per the Contract, Section 10.3, the Agency must keep and maintain all financial records and related supporting documentation during the term of their Contract and for a period of five years thereafter.

- The Agency does not maintain an accounts receivable ledger. Therefore, the Agency is unable to determine whether it receives appropriate payments from DCFS or to calculate any potential payment discrepancies.

- Financial statements do not accurately reflect the Agency's financial position. For example, we noted that the December 31, 2000 balance sheet had several "cash in bank" accounts with negative balances but the bank accounts were not overdrawn. For example, their money market account had a $2,287.27 negative balance and their Transitional Housing Pilot Program bank account had a negative balance of $33,569.61. Also, the Agency's accounts payable balance appeared to be misstated since we could not agree the reported balance to supporting documentation provided (see Group Home Loans above).

- Expenditures are not always classified in their proper general ledger account. For example, we noted that lump sum reimbursements were often classified as "maintenance expense" but included expenditures for several other items such as food and clothing.

- For five of 10 petty cash expenditures tested, the receipt totals did not match the amount recorded in the general ledger. In each case the variances were not material (typically less than $5). However, the Agency needs to ensure they record the exact amount for each petty cash reimbursement.

- Renaissance has two different programs/funding sources: Group Homes and Transitional Housing Pilot Program (THPP). We noted that the Agency did not allocate each program's respective revenues and expenditures during the period of our review. Renaissance management needs to develop and implement a cost allocation plan that incorporates the cost principles specified in the Circular and A-C Handbook. In addition, the Agency needs to apply the plan retroactively so that the shared expenses described above are charged appropriately to each program.

- Entries in the general ledger did not always include reference numbers. This makes it difficult to cross-reference to corresponding entries and determine the nature of some journal entries.

Recommendations

Renaissance management:

7. **Keep and maintain all accounting records and supporting documentation as required by the contract, including an accounts receivable ledger.**

8. **Ensure that financial statements and records accurately reflect the transactions and financial position of the Agency.**

9. **Develop and implement a cost allocation plan in accordance with the cost principles specified in the Circular and the A-C Handbook.**

10. **Apply the cost allocation plan retroactively.**

11. **Cross-reference all general ledger journal entries.**

Disbursement and Receipt Controls

- The Agency does not keep a daily attendance log for residents. As a result, we could not determine the number of days a child was placed with the Agency and whether the amounts paid to the Agency were appropriate.

- Supporting documents are not referenced to a cancelled check. As a result, the Agency could not locate supporting documentation for many expenditures.

- Supporting documents such as invoices and receipts are not marked "Paid" or otherwise cancelled.

- Only one signature is required on all checks. To ensure that disbursements are appropriate, the Agency should require two signatures on checks issued for large amounts. The Agency should work with DCFS to set an appropriate limit (e.g.,

$500) for checks requiring only one signature and require two signatures on all checks issued in excess of that amount.

- The Agency does not have adequate procedures for procuring and purchasing group home items. All of the checks we reviewed were signed by the CEO, including his own payroll checks and reimbursement checks issued to himself. We also noted that the CEO makes frequent purchases of items such as office and maintenance supplies, food, clothing, and furniture from various vendors and locations for which the Agency reimburses him. For example, in October 2000, the CEO was reimbursed $1,942 for office supplies, $1,589 for furniture and $613 for food purchases. Without formal requisitions forms and approvals, the Agency cannot ensure these types of purchases are authorized and used for their intended purposes. The Agency should establish formal procurement procedures and require that all purchases be approved by at least two individuals.

- The Agency does not maintain detailed vehicle mileage logs in accordance with the A-C Handbook, Section 3.014, which requires vehicle mileage logs showing dates, destinations and headquarters, purposes of trips, and mileage driven.

Recommendations

Renaissance management:

12. Maintain a daily attendance log for residents to ensure amounts paid to the Agency are appropriate.

13. Ensure that invoices and receipts are conspicuously marked "Paid" or otherwise cancelled and that they are referenced to a cancelled check.

14. Require two signatures on checks issued for large amounts.

15. Establish formal procurement procedures and require that all purchases be approved by at least two individuals.

16. Maintain detailed mileage logs in accordance with the A-C Handbook.

Payroll Controls

Our review disclosed the following weaknesses related to the payroll function:

- Timecards are not always prepared. Management indicated that the CEO and Administrator do not consistently complete timecards. The A-C Handbook requires that timecards be prepared for all employees.

- Timecards are not signed by employees. Also, we noted one employee that approves her own timecard. Per the A-C Handbook and the Circular, payroll records must be signed by the employee and approved by a supervisor.

- The CEO and the Administrator do not allocate their timecard hours between the two programs administered by the Agency, but instead charge their entire salary to the group home program.

- Four (57%) of seven employee files reviewed did not contain any pay rate documentation and three (42%) of seven files contained outdated salary information. Per the Circular, Section 7, salaries and wages will be based on documented payroll rates approved by a responsible official of the organization.

Recommendations

Renaissance management:

17. Ensure timecards are prepared for all employees.

18. Ensure timecards are signed by employees and approved by a supervisor.

19. Allocate hours worked between the various Agency programs.

20. Ensure employee salary rates are documented and authorized by an official of the Agency.

Independent Contractors

We noted that the Agency did not maintain current contract agreements between itself and two independent contractors. The contract agreements should include the current rate of pay, type of service to be provided, time period of agreement and be signed and dated by both the independent contractor and the Agency.

We also noted that the CEO of the group home is an independent contractor but functions as an employee and should be paid through the regular payroll system. Management has agreed with this determination and indicated they will make the necessary change.

Recommendations

Renaissance management:

21. Ensure a current contract agreement is maintained between each independent contractor and the Agency.

22. Ensure employees are paid as employees and that appropriate payroll taxes and withholdings are paid.

Bank Reconciliations

Renaissance does not reconcile their bank accounts to their financial records. Section 4.011 of the A-C Handbook states that bank statements shall be reconciled monthly and reviewed by supervisory personnel for appropriateness and accuracy.

Bank reconciliations are a primary control for the detection of errors and irregularities. Without bank reconciliations, the Agency's financial records cannot be relied upon to be accurate and complete. Accordingly, reconciliations should be prepared as soon as practical following receipt of the bank statement. Bank balances should be reconciled to the general ledger, with reconciling items (i.e., outstanding checks) clearly identified and resolved. Bank reconciliations should be reviewed and approved in writing by management.

Recommendations:

Renaissance management:

23. Prepare bank reconciliations monthly.

24. Ensure outstanding checks are reviewed periodically and, if appropriate, cancelled.